

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-041  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 and 2006

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AUDIT STAFF

Ron Shackelford, CPA  
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Audit Chief  
Assistant Audit Chief  
Auditor

AUDIT REPORT NUMBER

#08-041

41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements .....	6
Report Distribution .....	11



CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Kevin Hartwick, President  
Board of Directors  
41st DAA, Del Norte County Fair  
421 Hwy. 101 North  
Crescent City, California 95531

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 41st District Agricultural Association (DAA), Del Norte County Fair, Crescent City, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 41st DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

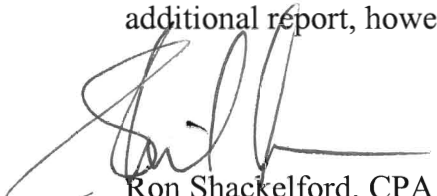
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 41st DAA, Del Norte County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 41st DAA, Del Norte County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-041, on the 41st DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 41st DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



for Ron Shackelford, CPA  
Chief, Audit Office

May 16, 2008

**41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank	111 - 117	\$ 44,748	\$ 38,827
Accounts Receivable, Net	131	13,538	19,665
Accounts Receivable - CCA	133	144,071	173,088
Deferred Charges	143	1,767	1,569
Land	191	30,353	30,353
Buildings and Improvements, Net	192	1,079,763	1,051,086
Equipment, Net	193	-	10,905
<b>TOTAL ASSETS</b>		<b><u>1,314,240</u></b>	<b><u>1,325,493</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable & Other Liabilities	212	11,098	10,218
Taxes Payable	221 - 226	17	(102)
Deferred Income	228	16,735	8,886
Guaranteed Deposits	241	11,450	5,640
Compensated Absences Liability	245	17,000	13,409
<b>Total Liabilities</b>		<b><u>56,300</u></b>	<b><u>38,051</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	16,873	18,625
Net Resources - Operations	291	(13,119)	(621)
Net Resources - Capital Assets, net related debt	291.1	1,110,116	1,092,344
Net Resources - Restricted Resources	293	144,071	177,094
<b>Total Net Resources Available</b>		<b><u>1,257,940</u></b>	<b><u>1,287,442</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 1,314,240</u></b>	<b><u>\$ 1,325,493</u></b>

**41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
December 31, 2007 and 2006

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
<b>REVENUE</b>			
State Apportionments	312	\$ 180,000	\$ 180,000
Other F&E Allocation	318	80,500	131,122
Admissions	410	83,350	84,788
Commercial Space	415	12,175	12,340
Carnival	421	55,163	47,943
Food Concessions	422	20,589	18,635
Exhibits	430	3,771	4,746
Horse Show	440	1,994	1,787
Rabbit Show	450	-	875
Attractions - Fairtime	460	33,279	30,226
Miscellaneous Fair	470	33,987	38,223
Miscellaneous Non-Fair	471	1,350	-
JLA - Revenue	476	210,169	278,807
Non-Fair Revenue	480	148,150	126,578
Prior Year Adjustment	490	82,266	875
Other Revenue	495	4,116	14,197
<b>Total Revenue</b>		<b><u>950,859</u></b>	<b><u>971,142</u></b>
<b>EXPENSES</b>			
Administration	500	219,502	222,370
Maintenance and Operations	520	203,489	180,953
Publicity	540	10,936	12,460
Attendance	560	18,094	14,464
Miscellaneous Fair	570	2,775	11,968
Miscellaneous Non Fair	570.5	5,254	-
JLA - Expense	576	211,922	274,910
Premiums	580	13,904	10,696
Exhibits	630	27,565	23,616
Horse Show	640	1,300	814
Rabbit Show	650	-	925
Attractions - Fairtime	660	114,936	82,605
Prior Year Adjustments	800	37,064	25,341
Cash Over/Short from Ticket Sales	850	104	(405)
Depreciation Expense	900	56,844	56,869
Other Capital Project Expense	940	33,023	-
Other Operating Expense	945	23,647	95,363
<b>Total Expenses</b>		<b><u>980,359</u></b>	<b><u>1,012,948</u></b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		(29,501)	(41,806)
Resources Available, January 1		1,287,442	1,329,248
<b>Resources Available, December 31</b>		<b><u>\$ 1,257,941</u></b>	<b><u>\$ 1,287,442</u></b>

**41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
December 31, 2007 and 2006**

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (29,501)	\$ (41,806)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	6,127	20,632
(Increase) Decrease in CCA Receivable	29,017	4,006
(Increase) Decrease in Deferred Charges	(198)	440
Increase (Decrease) in Accounts Payable & Other Liabilities	880	(25,665)
Increase (Decrease) in Current Portion of LT Debt	-	(1,687)
Increase (Decrease) in Payroll Taxes	119	(2,415)
Increase (Decrease) in Deferred Income	7,849	1,101
Increase (Decrease) in Guarantee Deposits	5,810	2,505
Increase (Decrease) in Compensated Absence Liability	3,591	(1,862)
Total Adjustments	<u>53,194</u>	<u>(2,945)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>23,693</b></u>	<u><b>(44,751)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Construction in Progress	-	149,774
(Increase) Decrease in Buildings & Improvements, Net	(28,678)	(103,054)
(Increase) Decrease in Equipment, Net	10,906	(7,865)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(17,772)</b></u>	<u><b>38,855</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>-</b></u>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>5,922</b>	<b>(5,896)</b>
Cash at Beginning of Year	38,827	44,723
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 44,748</b></u></u>	<u><u><b>\$ 38,827</b></u></u>

**41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 41st District Agricultural Association (DAA) was formed in May 1922, for the purpose of sponsoring, managing, and conducting the Del Norte County Fair each year in Crescent City, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	5,557	5,429
Cash in Bank - Premium	2,405	2,338
Cash in Bank - Payroll	2,573	89
Cash in Bank - JLA	13,807	13,076
Cash in Bank - LAIF	<u>20,306</u>	<u>17,795</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 44,748</u></u>	 <u><u>\$ 38,827</u></u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable	\$ 13,509	\$ 12,943
Accounts Receivable - JLA	3,588	9,159
Accounts Receivable - CCA	144,071	173,088
Accounts Receivable - UI	-	445
Allowance for Doubtful Accounts	<u>(3,559)</u>	<u>(2,432)</u>
 Accounts Receivable - Net	 <u><u>\$ 157,609</u></u>	 <u><u>\$ 192,753</u></u>

**NOTE 4      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	2007	2006
Building & Improvements	\$2,488,707	\$2,401,578
Less: Accumulated Depreciation	(1,408,944)	(1,350,492)
Building & Improvements - Net	<u>\$1,079,763</u>	<u>\$1,051,086</u>
 Equipment	 \$ 162,837	 \$ 174,569
Less: Accumulated Depreciation	(162,837)	(163,663)
Equipment - Net	<u>\$ -</u>	<u>\$ 10,905</u>

**NOTE 5      RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have a material effect on net income.

**41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 41st DAA Board of Directors
1	Chief Executive Officer, 41st DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA

MANAGEMENT REPORT

YEAR ENDED DECEMBER 31, 2007

41ST DISTRICT AGRICULTURAL ASSOCIATION  
DEL NORTE COUNTY FAIR  
CRESCENT CITY, CALIFORNIA

MANAGEMENT REPORT # 08-041  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

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Ron Shackelford, CPA  
Shakil Anwar, CPA  
Anthony DelMastro

Audit Chief  
Assistant Audit Chief  
Auditor

MANAGEMENT REPORT NUMBER  
#08-041

**TABLE OF CONTENTS**

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS .....	3
Accounting for Fixed Assets .....	3
Improper Use of the Fair’s Net Resource Account .....	3
NON-REPORTABLE CONDITIONS .....	5
Opportunity Purchases .....	5
Time Records .....	5
Unrecorded Liabilities.....	6
Admission Revenue.....	6
Internal Controls Over Concession Revenue .....	6
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE.....	7
CDFA EVALUATION OF RESPONSE.....	9
DISPOSITION OF AUDIT RESULTS.....	10
REPORT DISTRIBUTION .....	11



CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Kevin Hartwick, President  
Board of Directors  
41st DAA, Del Norte County Fair  
421 Hwy 101 North  
Crescent City, California 95531

In planning and performing our audit of the financial statements of the 41st District Agricultural Association (DAA), Del Norte County Fair, Crescent City, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Del Norte County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 41st DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 41st DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 41st DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 41st DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 41st DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 41st DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, and improper use of the Fair's net resource account. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 41st DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### ACCOUNTING FOR FIXED ASSETS

Our office noted accounting errors and omissions in the Fair's accounting for fixed assets. Based on an examination of the Fairs property ledger (P/L) for buildings and improvements and equipment our office noted that the Fair did not correctly record costs for one completed project in the buildings and improvements P/L totaling \$35,807. Second, our office noted a buildings and improvement project totaling \$11,732 was incorrectly recorded in the equipment P/L. Lastly, the Fair recorded a project totaling \$1,200 in the equipment P/L that did not meet the asset capitalization criteria as indicated in the Fairs and Expositions (F&E) Assets Depreciation Manual.

As a result of the above, the Fair's P/L balance for Accounts #192, Buildings & Improvements, and Account #193, Equipment, does not agree to the general ledger (G/L) balance. The Fair's G/L is understated by \$47,539 and overstated by \$12,932 respectively. In addition, our office noted that the Fair's total accumulated depreciation for buildings and improvements and equipment per the depreciation schedule did not agree with the G/L balance. Accumulated depreciation is understated \$5,556 and overstated \$4,933 respectively.

#### *Recommendations*

- 1. The Fair should make the necessary correcting journal entries to ensure the amounts reported for fixed assets are properly stated in its property ledger and general ledger. In the future, the Fair should update its property ledger on a monthly basis and reconcile amounts in the property ledger to the general ledger. Any differences should be researched for their cause and corrected prior to preparing the year-end statement of operations.*
- 2. In addition, the Fair should perform reconciliation between fixed asset amounts reported in the General Ledger and on the depreciation schedule to ensure that the correct depreciation is calculated and recorded.*
- 3. The Fair should follow the asset capitalization criteria established by the Department of Finance and capitalize property only having a value of at least \$5,000 and a useful life of at least one year.*

### IMPROPER USE OF THE FAIR'S NET RESOURCE ACCOUNT

The Fair understated its revenues and expenditures for 2007 by making direct journal entries to Account #291, Net Resources, without recognizing any corresponding revenue or expense. In addition, our office noted multiple journal entries made to the net resource account, related to the addition and deletion of capital projects during the year. Such accounting practices lack financial transparency, as well as weaken a proper audit trail.

The purpose of the net resource account is for reporting the increases and decreases resulting from net income or loss recognized during the course of doing business. The Fair should

refrain from making direct entries to the net resource account, as this practice understates the revenues and expenditures of the Fair, improperly conceals the financial nature of the related transactions, and could result in materially inaccurate or misleading financial reporting.

*Recommendations*

4. *The Fair should ensure a clear audit trail exists at year-end as it closes its accounting records and prepares the annual Statement of Operations. This includes (i) maintaining a pre-closing trial balance that reconciles to the general ledger, (ii) maintaining detailed journal entries as the Fair closes current year revenue and expenses, (iii) formally closing all revenue and expenses and preparing a post-closing trial balance as of December 31, and (iv) preparing and reconciling the annual statement of operations to financial information on the pre and post-closing trial balances.*
5. *The Fair should ensure journal entries are not recorded directly to any net resources account, as this understates total revenues and expenses and may lead to material misstatements in the Fair's financial reporting.*

## NON-REPORTABLE CONDITIONS

### OPPORTUNITY PURCHASES

The Fair made opportunity purchases during 2007; however, it failed to document that opportunity purchases meet or beat the State price. Opportunity purchases allow the DAA's to purchase commodities from any source provided it meets or beats that available through the state-purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the state-purchasing program does not sufficiently meet the documenting criteria. This was a prior year finding.

In addition, the Fair did not have a complete control log of purchase orders for year end 2007. Upon examination of purchase orders we noted that purchase orders were not in sequential order, and in some instances did not indicate on the purchase order the price or date of purchase. The Fair did not prepare the Standard Form 65, Contract/Delegation Purchase Order, for all purchases of goods greater than \$100, as required by the Department of General Services (DGS) purchasing guidelines.

#### *Recommendations*

*The Fair should follow the proper guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meet or beat the State Price.*

*The Fair should ensure they follow existing DGS guidelines by preparing a Standard Form 65 for all purchases exceeding \$100.*

### TIME RECORDS

The Fair manager did not complete a Standard Form 634 (STD 634), Absence and Additional Time Worked Report, for 8 out of 12 months. As a result, our office noted instances where the manager used vacation or cashed a minor amount of vacation without formal approval documented on the STD 634. According to the Accounting Procedures Manual (APM) section 4.1, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. The timecards must be reviewed and signed by a supervisor, board member, and time cards should show hours worked and leave taken.

#### *Recommendation*

*The Fair should comply with APM and require all permanent employees to maintain time cards that show time worked and vacation taken with the appropriate supervisor approval.*

**UNRECORDED LIABILITIES**

The Fair did not accrue all known payables in the general ledger at year-end. After examination of the cash disbursements journal for January 2008 our office noted that the fair had not properly accrued liabilities for year-end 2007 totaling \$2,328. All known payables, including estimates of telephone, gas, retirement, and electric bills for the month of December, should be included. The purpose of accruing payables at fiscal year-end is to reflect expenses in the proper year.

*Recommendation*

*Accounts payable at year-end should include all known payables, including estimates of telephone, gas, and electric bills. Such estimates should be made even though billings have not yet been received.*

**ADMISSION REVENUE**

Based on examination of admission cash receipts and deposits, our office noted one instance totaling \$2,000, where it appears that the Fair accepted or cashed a check from the admission revenue cash receipts. According to the State Administrative Manual (SAM) 8032.4, admission cash receipts should be deposited intact.

*Recommendation*

*The Fair should comply with SAM section 8032.4, and refrain from cashing checks from admission revenue.*

**INTERNAL CONTROLS OVER CONCESSION REVENUE**

The Fair exposed itself to loss by not maintaining daily sales recap sheets for each fairtime food concessionaire. Instead, the Fair maintained a signed summary of total sales for each concessionaire that represented total sales reported during fairtime. In addition, our office noted that none of the amounts reported were supported by detailed documentation such as a cash register z-tapes. As a result, the Fair cannot ensure it collected its entire share of revenue.

*Recommendation*

*The Fair should improve internal controls over concessions revenue by, at minimum, maintaining a daily recap for each concessionaire that sums total daily sales, and require cash register z-tapes that support the daily sales reported.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**

# 41st District Agricultural Association

421 Hwy 101 North  
Crescent City, CA 95531

Phone 707-464-9556  
Fax 707-464-9519

1-800-350-9556  
E-Mail: [delnortefairgrounds@charterinternet.com](mailto:delnortefairgrounds@charterinternet.com)

July 21, 2008

CDFA Audit Office  
Ron Shackelford, CPA  
Chief, Audit Office  
1220 N St., Room 344  
Sacramento, Ca. 95814

Subject: 2007 Audit Response

Dear Mr. Shackelford,

The Fair has reviewed the Audit Report and our response is as follows.

## ACCOUNTING FOR FIXED ASSETS

We will make the necessary journal entries as outlined in the recommendations. This office is requesting direction and input on how to make the required journal entries so that we have correctly met the recommendations.

The fair will make every effort to reconcile general ledger and the fix assets on a monthly basis and the fair will follow the capitalization criteria.

## IMPROPER USE OF THE FAIRS NET RESOURCE ACCOUNT

The fair will follow the recommendations, but request assistance in correcting the issues and making the proper journal entries.

This concludes our response. If you any questions, please feel free to contact me.

Thank you,

  
Randy Hatfield CEO  
cc. Mike Treacy F&E

  
Kevin Hartwick Board President

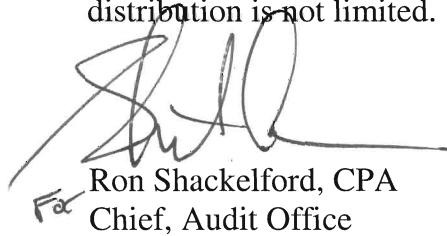
**CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 41st DAA, Del Norte County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between May 5, 2008 and May 16, 2008. My staff met with management on May 16, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Fa Ron Shackelford, CPA  
Chief, Audit Office

May 16, 2008

## REPORT DISTRIBUTION

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1	Chief, CDFA Audit Office